DG 01-159

NEW HAMPSHIRE GAS CORPORATION

Winter 2001/2002 Fixed Price Option Plan

Order NISI Order Approving Fixed Price Option

O R D E R N O. 23,764

August 24, 2001

The Petitioner, New Hampshire Gas Corporation (NHGC), on August 10, 2001, filed with the New Hampshire Public Utilities Commission (Commission) a Fixed Price Option (FPO) for the winter period, November 1 2001 through April 30, 2002. The petition was accompanied by the prefiled testimony of Mark A. Cole, General Manager. The proposed FPO Plan (Plan) is a modified version of the Pilot Fixed Option Program (Program) offered by NHGC last winter, approved by the Commission by Order No. 23,457 (May 2, 2000) which authorized NHGC to offer the Program on a trial basis for the 2000/2001 winter period. The proposed Plan was developed based on a review and analysis of the results of the Pilot FPO Program and following discussions with Commission Staff (Staff) as to how to improve the Program.

The FPO Plan allows firm sales customers the option of paying a fixed rate for the cost of gas component of the total gas service rates during the winter months. The purpose of the FPO is to offer customers an option that would provide protection against price fluctuations in the winter period. NHGC has contracted for the purchase of eligible quantities at fixed prices from a propane supplier.

Under the proposed Plan, NHGC will make available up to fifty percent (50%) of its average winter sendout. The proposed FPO Plan increased the eligible quantities in an attempt to satisfy expected demand, based on last winter's over-subscription of the 20% limit set in the Pilot FPO Program.

Another modification to the Pilot FPO Program is in calculating the FPO rate. For the Pilot Program, the rate was calculated based on the cost of propane for the eligible amounts, divided by the projected therm sales, and resulted in an almost identical FPO rate and proposed COG rate for last winter. Given that most of the propane required for this winter's FPO program has been locked-in with suppliers and that the purchases for the COG customers will not start until the commencement of the winter 2001/2002 period, there is a concern that there could be a considerable variance between the rates calculated for the FPO and COG due to fluctuations in the market price for propane during the interim period. To address this concern, the FPO rate would be 'pegged' to the proposed COG rate. If the initial calculation of the FPO yields a rate that is equal to or less than the proposed COG rate, a premium will be added to the FPO rate.[1] This premium will be no less than 5 percent of the proposed COG rate, or the amount necessary to bring the FPO rate equal to 95 percent of the COG rate, whichever is greater. Addition of this premium would, therefore, yield a FPO rate that will be between 95 and 105 percent of the proposed COG. If the initial calculation of the FPO yields a rate that is equal to or greater than 105 percent of the proposed COG, no adjustment in the FPO will be made.

Eligible quantities will be allocated among two pools of customers (residential and commercial/industrial), based on their pro-rata winter 2000/2001 cost of gas period therm sales. Customers will be allowed to enroll on a first-come, first-served basis and if one of the customer pools in under-subscribed the unsubscribed volumes will be made available to the other pool.

NHGC avers that the FPO customers contributed to last winter's under-collection and proposed that a proportionate share of the under-collection be included in

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[1]Although included in the FPO and COG rate calculations, trucking costs would not be subject to the premium. Trucking costs are a relatively small component of the calculation and are not subject to the same price volatility as propane.

calculating this winter’s FPO rate and that any over or under-collection from the upcoming winter be likewise allocated equitably between the FPO and COG customers.

We have reviewed the filing and find that NHGC’s Fixed Price Option Plan, as modified from last winter’s Pilot FPO Program, is consistent with the public good.

NHGC’s current COG service is designed to adjust the COG rate on a monthly basis, to reflect market prices more accurately than a less regularly adjusted rate would, and has resulted in frequent COG rate changes. The FPO offers an alternative to customers who do not want to be subject to the volatility of market prices and fluctuating rates over the winter period and is consistent with Commission Order No. 23,583 (October 31, 2000), approving the 2000/2001 winter COG, which states:

> “Given the overwhelming response to the FPO experience for this winter period, a review of the program and the available suplies is in order. Therefore, we direct NHGC to review that policy for possible modifications and/or alternatives that might help stabilize rates and to discuss those policies with Staff.”

NHGC’s FPO Plan is similar to fixed price plans offered in the competitive market by oil and propane dealers, as well as natural gas marketers and the other gas utilities operating in New Hampshire, that ensure a set price for the winter period to customers who desire price certainty.

Enrollment in the FPO will commence when NHGC files for its winter COG rate, enabling customers to better evaluate the risks associated with their purchasing options. The proposed premiums applied to the FPO rate should result in FPO and COG rates that are closely linked and, therefore, customer participation will be determined by risk aversion rather than price differentials. The availability of two pricing options will allow customers to decide the level of price risk they wish to tolerate while providing better price signals to the marketplace.

Variances in the revenues and costs associated with the FPO are likely, as usage and supply mix are based on normalized weather. Any resulting over or under-collection should not be significant and should be partially offset by a premium. Unless there is a precipitous drop in the propane futures prices prior to NHGC calculating its proposed COG rate for this winter, the FPO and COG rates should be within a few pennies of one another. The most likely scenario would have FPO customers paying a slight premium for price certainty and to help insure against an under-collection that could occur if NHGC were forced to buy additional propane supplies at higher market prices to serve those customers during colder than normal weather. The premium would be an additional cost per therm a customer would pay to obtain a firm price for the winter period and to help protect COG customers from a potential under-recovery of gas costs from FPO customers.

We agree that the Plan should be limited and that fifty percent (50%) of the normal winter period therm sales is a reasonable amount to be offered for the coming winter based on participation levels experienced for last winter’s Pilot FPO Program. NHGC had capped participation at 20% and its Program was significantly over-subscribed for the 2000/2001 winter period. If the FPO is under-subscribed, the supplies purchased for the FPO will be deemed to be additional volumes hedged for the COG customers.

In a market where prices have traditionally risen during the winter, both FPO and COG customers should likely benefit as FPO participants pay a price based on propane supplies locked-in during the summer and the COG customers benefit from any premiums paid by FPO customers.

As with the Pilot FPO Program, the proposed FPO Plan should be closely monitored and the results reviewed and evaluated to serve as a basis for continuing and improving the Plan going forward.

Based upon the foregoing, it is hereby

ORDERED NISI, that the proposed Fixed Price Option Plan is hereby APPROVED until such time that NHGC or the Commission determine that the FPO Plan is no longer appropriate or requires modification; and it is

FURTHER ORDERED, that the Petitioner shall cause a copy of this Order Nisi to be published once in the Keene Sentinel, such publication to be no later than August 29, 2001 and to be documented by affidavit filed with this office on or before September 7, 2001; and it is

FURTHER ORDERED, that all persons interested in responding to this petition be notified that they may submit their comments or file a written request for a hearing on this matter before the Commission no later than September 14, 2001; and it is

FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than September 19, 2001; and it is

FURTHER ORDERED, that this Order Nisi shall be effective September 28, 2001, unless the Commission provides otherwise in a supplemental order issued prior to the effective date; and it is

FURTHER ORDERED, that the Petitioner shall file a compliance tariff with the Commission on or before October 1, 2001, in accordance with N.H. Admin. Rules, Puc 1603.02(b).

By order of the Public Utilities Commission of New Hampshire this twenty-fourth day of August, 2001.

Douglas L. Patch Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Thomas B. Getz
Executive Director and Secretary